

innovative

Annual Report 2001



Established one hundred and thirty years ago, Domco Tarkett Inc. owes its continued growth and its ability to produce superior products and services to the dedication and expertise of its approximately 2,300 employees.

Today, Domco Tarkett is the second largest manufacturer of resilient and hardwood flooring in North America. With ten manufacturing facilities and extensive distribution networks serving all regions of the United States and Canada, the Company offers one of the most comprehensive, stylish and high-quality product lines in the industry.

corporate profile

Domco Tarkett core businesses are now aligned into three distinct divisions.*

Domco Tarkett Commercial is based in Houston, Texas. It manufactures and distributes the Company's Azrock®, Tarkett®, and Nafco® tile products. The division is also responsible for the Company's Tarkett-Sommer line of specialty products.

Domco Tarkett Residential, which produces the Domco® and Tarkett® lines of resilient sheet flooring, has its head office and manufacturing facility in Farnham, Quebec. The division's U.S. Sales and Marketing headquarters are in Whitehall, Pennsylvania.

Harris-Tarkett, the Company's hardwood division, is based in Johnson City, Tennessee. It produces a range of prefinished and unfinished solid and engineered plank and strip products.

Domco Tarkett shares are traded on the Toronto Stock Exchange under the symbol DOC. The head office is located in Farnham, Quebec.

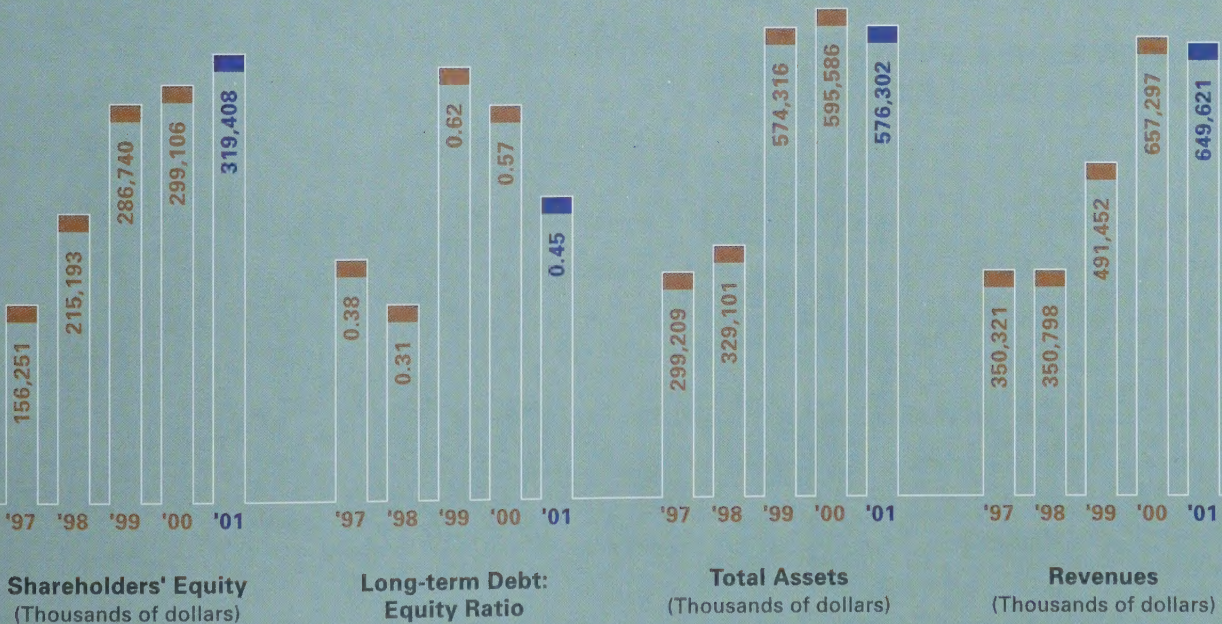
*effective January 1st, 2002

DOMCO TARKETT INC.

Financial Highlights

(Thousands of dollars, except per share amounts) Years ended December 31

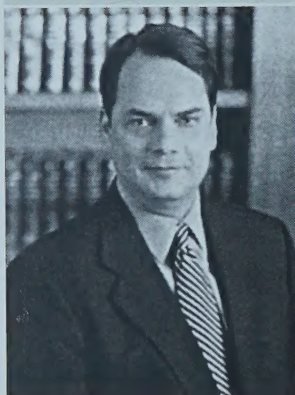
	2001	2000	1999	1998	1997
	\$	\$	\$	\$	\$
Revenues	649,621	657,297	491,452	350,798	350,321
Gross margin	193,091	201,629	156,641	122,592	126,723
Income before income taxes	8,780	8,613	20,835	17,737	28,499
Net income	7,923	7,838	18,388	14,725	20,362
Working capital	155,752	160,087	157,142	87,736	53,714
Total assets	576,302	595,586	574,316	329,101	299,209
Total long-term debt	142,277	171,789	178,789	65,646	58,876
Shareholders' equity	319,408	299,106	286,740	215,193	156,251
Basic earnings per share	0.31	0.31	0.83	0.82	1.27
Fully diluted earnings per share	0.31	0.31	0.83	0.80	1.09
Book value per share	12.57	11.77	11.29	10.91	9.61
Dividend per common share	-	0.15	0.275	0.275	0.275



Domco Tarkett

*A single team committed to a single goal
— unleashing the full potential of our product lines and promoting our long-term growth.*

DOMCO TARKETT INC.



"I am confident that our team's dedication to excellence will enable us to secure a place at the leading edge of our industry."

- Ulf Mattsson
President & CEO



Message to Shareholders

IN 2001, recessionary pressures exerted an adverse effect on businesses throughout the world. Economic recovery was further stalled by the tragic events that occurred in the United States. Nevertheless, Domco Tarkett has emerged with a revitalized sense of purpose. While political and economic uncertainties had a clear impact on our overall sales and profit figures in 2001, we were successful in significantly growing our hardwood business. We also adopted decisive measures to improve the profitability of our resilient flooring business.

This resulted in organizational changes that reflect the Company's efforts to improve efficiency, profitability and the ability to respond to the evolving needs of its customers in an increasingly competitive marketplace.

In order to focus on the retail and contract customer base we serve and to capture a greater market share, we separated our resilient business into two distinct divisions, Domco Tarkett Commercial, which is headed by Gilles de Beaumont, and Domco Tarkett Residential, led by Jan Lembregts. The rest of our management team is comprised of Jim Morando, who continues to oversee our hardwood division, and Jacques Bénétreau, our new CFO. This dynamic group of experienced industry specialists is committed to uniting the forces that will help us unleash the full potential of our extensive product lines and promote our long-term growth.

These restructuring efforts allow us to realize a number of other objectives. The realigned divisions renew our corporate culture by bringing together Domco and Tarkett as a single team pursuing a single goal. Furthermore, the new structure consolidates responsibility and decision-making. Each division is now accountable for everything from manufacturing to customer satisfaction. Finally, the establishment of the two resilient divisions improves our speed-to-market and facilitates timely product innovation. I believe this reorganization makes the very best use of the considerable talents of all our people.

We also took a number of key steps to enhance our position in the vinyl and hardwood flooring industries. Reaffirming our commitment to innovation was a top priority and I'm pleased to say that we have already begun to reap the benefits. In recent months we introduced a variety of exciting new products and product finishes to the marketplace. Of particular note is our pioneering TruTex™ Innovative Surfacing. This revolutionary technology enhances resilient sheet flooring to provide the most realistic representation of ceramic or natural stone. Consumer demand for natural finishes has been on the rise in recent years; this product will help us capture a share of that market.

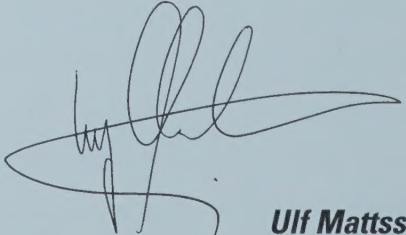
In 2001, Harris-Tarkett, our hardwood flooring division, was also very active. The hardwood business was our primary profitability driver and sales rose a substantial 15.4%. We introduced three new hardwood product lines in 2001 and acquired a manufacturing facility in Brookneal, Virginia. Coupled with the expansion at Stuart Flooring, the division greatly increased its manufacturing capacity over the past year. Additionally, we acquired certain assets of HFI Hardwood Flooring, a Canadian product distributor. This deal further increases our hardwood division's market penetration in Canada.

For 2002, we will continue to devote our energies to developing the markets for our resilient flooring products. We will also be introducing more innovative products designed to address a consumer demand for realistic-looking floor coverings. These efforts will help boost the profitability of Domco Tarkett Residential and Domco Tarkett Commercial. Together, these divisions represent the lion's share of our business and the Company's growth depends on their performance.

Moreover, we will be pursuing an even higher market profile for our successful hardwood products, and will continue to increase and refine our distribution system. Finally, we remain committed to improving our operational, product development and manufacturing efficiency.

The residential, commercial and industrial markets we serve have become extremely competitive over the last couple of years. To meet the challenges of this marketplace, we must be innovators, not followers. I am confident that our team's dedication to excellence will enable us to secure a place at the leading edge of our industry.

In closing, I would like to thank our employees for their substantial contributions, our customers for their continuing support and our shareholders, all of whom play a central role in our pursuit of excellence. We are committed to improving our profitability with decisive measures to enhance shareholder value.

A handwritten signature in black ink, appearing to read 'Ulf Mattsson', with a long horizontal flourish extending to the right.

Ulf Mattsson

President and Chief Executive Officer

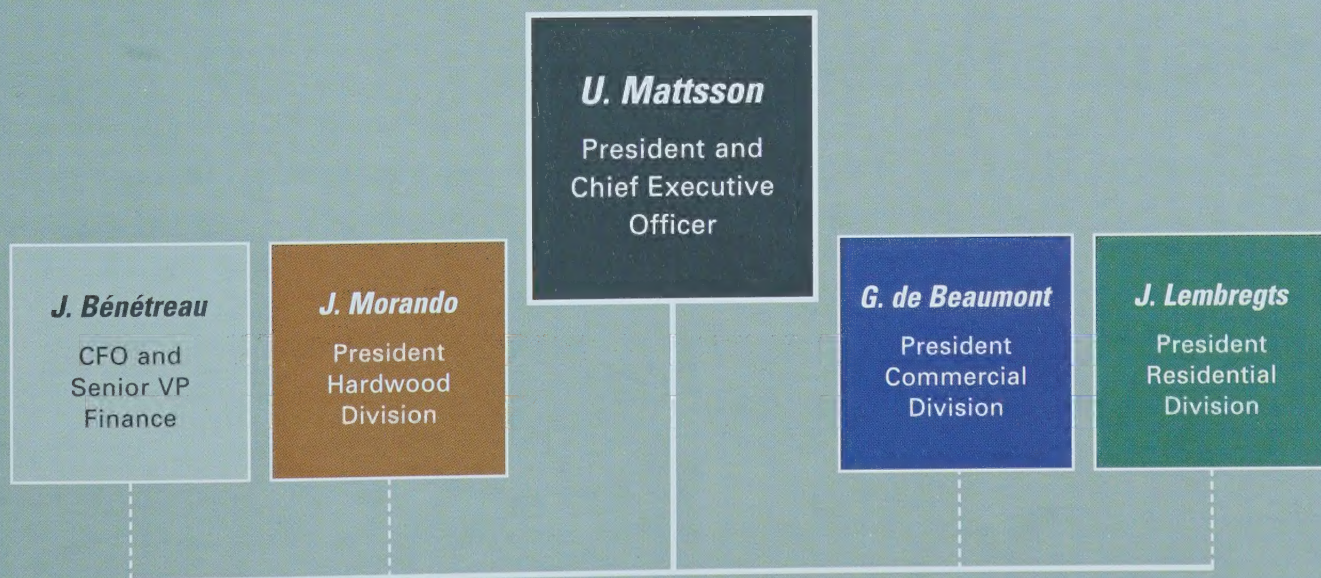
With a revitalized, sharply focused organization, Domco Tarkett's experienced and dynamic management team is poised to seize the opportunities that lie ahead.

The quality of our leadership, the dedication of our employees and our commitment to excellence give us a competitive edge.

From left to right:
Jacques Bénétreau, James K. Morando,
Ulf Mattsson, Gilles de Beaumont
and Jan Lembregts



management group



Commercial

Forging a leadership position in the resilient flooring industry by addressing the needs of our distinct customer groups.

**DOMCO TARKETT
COMMERCIAL**



Review of Operations



This past year marked a turning point for Domco Tarkett's resilient flooring sector. Achieving acceptable levels of profitability in a fiercely competitive marketplace has been a major source of concern. In 2001, the Company made a series of vital changes to secure greater market share and facilitate long-term growth.

The establishment of Domco Tarkett Commercial as a separate division initiated during the fourth quarter streamlines and focuses the Company's commercial resilient operations. It also allows the division to realign its sales force to better meet the specific needs of its distinct customer groups.

In 2001, the Company dedicated itself to innovation. One of its more remarkable achievements was the development of Tritonite™, a space-age wearlayer that greatly enhances the durability of its luxury flooring products. Made of the same tough ceramic material that protects the space shuttle during re-entry, Tritonite™ combats scratches and abrasions up to five times better than traditional wear surfaces.

There is growth potential in the high-end resilient flooring sector. To take advantage of these opportunities, Domco Tarkett refocused on its popular Nafco® brand of luxury vinyl tile. New styles and designs were introduced to address the market demand for wood, stone and ceramic finishes, and a major marketing initiative was launched.

Domco Tarkett Commercial expects that the efficiency measures implemented in 2001—which are generating productivity and process improvements, inventory reductions, and a decrease in operating expenses—will position the division to significantly boost its profitability in 2002 and 2003.

Furthermore, the products and innovations it introduced this past year, coupled with the strategic realignment of its marketing team, will enable the division to increase its sales volume. The flooring industry is only beginning to recover from the economic downturn, but it continues to present abundant opportunities for growth.

product brands

AZROCK®
TARKETT®
NAFCO®
TARKETT-SOMMER™

residential

Creating innovative, fashion-forward products and finishes to capture greater market share.

**DOMCO TARKETT
RESIDENTIAL**



Review of Operations



Many factors combined to reduce the profitability of Domco Tarkett's resilient flooring operations in 2001. Economic uncertainty had an adverse impact on sales throughout the industry. Revenues in the Company's residential sector were additionally affected by increasing consumer demand for alternate hard surface flooring such as laminates and ceramics. In response to this, the Company implemented a range of initiatives designed to face its future challenges.

Reorganizing the resilient flooring operations into two divisions, Domco Tarkett Residential and Domco Tarkett Commercial, was the most decisive move. While this was only initiated in November 2001, it immediately helped the Company sharpen the focus of its manufacturing and sales forces, laying the foundations for long-term growth.

In 2001, the Company also put in place a process improvement system to help reduce the time to bring products to market and cut operating expenses. Additionally, the Company concentrated on reducing inventory and other working capital items.

A renewed commitment to innovation was one of the hallmarks of 2001. Domco Tarkett Residential introduced a number of exciting products, such as the exclusive Tarkett Signature™ line, which combines fashionable design with unmatched durability. It also developed pioneering new product finishes, including TruTex™ Innovative Surfacing, which directly addresses the consumer's desire for realistic flooring surface textures. These innovations will greatly enhance the division's product portfolio and strengthen its competitive stature.

In 2002, Domco Tarkett Residential's primary goal is to reverse a declining sales trend and, by doing so, substantially improve its profitability. Its team is firmly dedicated to developing innovative products, improving operational efficiency and expanding distribution channels. As the flooring industry recovers, the division is poised to take advantage of the considerable opportunities that exist for capturing greater market share and bringing value to the Company.

product brands

DOMCO®
TARKETT®

TruTex™
Innovative Surfacing

Just
like
stylish

hardwood

Building on our success by developing premium products that exceed customer expectations.



HARRIS TARKETT

Review of Operations



By any measure, 2001 was an extraordinary year for Harris-Tarkett. Despite a very difficult market environment—in which demand for wood flooring was flat for the first time in over a decade and price discounting was intense—the Division posted the highest revenues in its history.

Harris-Tarkett's success can be attributed to a number of initiatives. The Division introduced three new products in 2001 and upgraded its distribution in almost half of the U.S. with top-tier distributors. Liquidating obsolete inventory and eliminating non-productive SKUs streamlined its operations. Strengthening the construction of its wood flooring products reduced already low claims by more than 30%.

To consolidate its position in the hardwood flooring industry, Harris-Tarkett also made a number of strategic moves. These included acquiring a solid unfinished strip mill in Brookneal, Virginia, and expanding the Stuart unfinished flooring plant. To boost its market penetration in Canada, Domco Tarkett purchased selected assets of HFI Hardwood Flooring Inc., a distributor based in Western Canada.

Harris-Tarkett's ongoing mission is to provide innovative flooring products that are clearly differentiated from those offered by competing companies. The Division is committed to continuously improving its manufacturing processes so that its premium products exceed customer expectations. Leading the industry in every product category in which it competes is the primary goal.

In 2001, Harris-Tarkett clearly demonstrated its ability to prosper even during challenging times.

In 2002, Harris-Tarkett is building on this momentum. Its ambitious growth strategy includes introducing a new range of fashion-forward wood flooring products, filling all vacant distributor territories and developing even closer relationships with its distribution partners and retail customers. The focus is to provide even greater value for customers and shareholders alike.

product brands

HARRIS TARKETT®
STUART™

Management Discussion and Analysis



ON March 14, 2002, the Board of Directors of Domco Tarkett Inc. approved the Corporation's audited consolidated financial statements for the fiscal year ended December 31, 2001. The following detailed analysis and discussion is provided to assist readers in their assessment and understanding of the consolidated results of operations and the financial position of Domco Tarkett in the year 2001. The discussion and analysis should be read in conjunction with the consolidated financial statements and the supporting notes included in this annual report. Unless otherwise stated, all dollar amounts are in Canadian dollars.

Overview

Fiscal 2001 was marked by global political and economic uncertainties that had a negative impact on the Corporation's consolidated results. While performance in the hardwood sector was strong, profitability in the resilient flooring business did not meet expectations.

In November 2001, to improve profitability, efficiency and its ability to respond to evolving customer needs, Domco Tarkett began the separation of its resilient business into two divisions: Domco Tarkett Residential and Domco Tarkett Commercial. Harris-Tarkett remains as the Corporation's hardwood division. Domco Tarkett also stepped up efforts to introduce innovative new flooring products and surfaces.

Operating Results

For the fiscal year ending December 31, 2001, sales reached \$649.6 million, a decrease of 1.2% year-over-year. Of these sales, 84.7% were generated in the U.S., compared to 84.8% during the same period in 2000. At constant exchange rates, sales would have declined by 5.0%.

These results combine strong performance in the hardwood segment, modest growth in distribution activities and a decrease in sales in the resilient flooring segment.

In the resilient flooring segment Domco Tarkett posted 2001 sales of \$387.6 million, compared to \$420.7 million in the previous year or a decrease of 7.9 %. At a constant exchange rate, this figure would have been \$370.6 million. This decline was particularly felt in the residential sector, while sales of commercial resilient flooring remained constant. The decline in the residential market has been ongoing for several quarters and reflects the popularity among consumers of flooring surfaces such as wood and ceramic. The Corporation is responding by developing new products that compete more effectively with these surfaces.

The hardwood-flooring segment experienced healthy growth. Sales were \$183.6 million for the year 2001, up from \$159.1 million in the previous year, representing an increase of 15.4 %. At a constant exchange rate, this figure would have been \$175.7 million. The hardwood segment accounted for 28.3% of the Corporation's consolidated net sales, compared to 24.2% a year ago.

Sales related to distribution activities totalled \$78.5 million in 2001, an increase of 1.2% over the previous year. This increase is due to the acquisition in March 2001 of certain assets of HFI Hardwood Flooring Inc., a hardwood-flooring distributor serving Western Canada.

Gross Margin

The consolidated gross margin reached 29.7% of sales, compared to 30.7% for fiscal 2000. This decline is due to the strong growth in the hardwood segment where gross margins are lower than in the resilient segment.

Administrative, Distribution and Selling Expenses

Administrative, distribution and selling expenses amounted to \$143.1 million (or 22.0% of consolidated sales), compared to \$148.3 million (or 22.6% of consolidated sales) for the same period in fiscal 2000. After eliminating the impact of exchange rate variations, the decline in administrative, distribution and selling expenses was \$10.8 million. This improvement results from tighter control of operating expenses as well as plant and administrative personnel downsizing under the Corporation's cost reduction program.

For fiscal 2001, Domco Tarkett reported earnings before interest, taxes, depreciation and amortization (EBITDA) of \$50.0 million (or 7.7% of consolidated sales). In fiscal 2000, this figure was \$53.3 million (or 8.1% of consolidated sales).

Net Earnings

Net earnings for fiscal 2001 were \$7.9 million, or \$0.31 per share, compared to \$7.8 million, or \$0.31 per share in the previous year.

Cash Flow

In fiscal 2001, operating activities generated \$ 57.9 million in liquidities compared to \$65.0 million for the same period last year. This continued positive performance is due to the close control of receivables and inventories, partially offset by lower payables.

Total net increase in cash was \$2.6 million for the year, compared to an increase of \$33.9 million in 2000. The difference is largely attributable to substantial repayments of long-term debt.

Capital expenditures totalled \$17.4 million for fiscal 2001, including a \$1.3 million business acquisition and net of \$0.6 million of assets disposal, compared to \$15.3 million for the corresponding period in fiscal 2000, net of \$1.8 million of assets disposal.

The Corporation has voluntarily reduced its short-term credit facilities by US\$25 million. As at December 31, 2001, available credit lines amount to US\$25 million.

Financial Position

As at December 31, 2001, the Corporation posted total assets of \$576.3 million, compared to \$595.6 million one year earlier.

Working capital amounted to \$155.8 million, compared to \$160.1 million as at December 31, 2000.

Accounts receivable are lower than a year ago, principally due to an improvement in the number of days sales outstanding. Customers are generally abiding by the negotiated payment schedules and management is satisfied that accounts receivable present no unusual credit risks.

Long-term debt decreased significantly during the year. It stood at \$126.8 million as at December 31, 2001, or \$142.3 million when including the current portion of the long-term debt. In the previous year, these figures were \$155.4 million and \$171.8 million respectively.

Shareholders' equity increased from \$299.1 million to \$319.4 million. This includes a \$12.4 million increase in deferred translation adjustments, reflecting a weaker Canadian currency against the U.S. dollar.

Based on current operating budgets, the management of Domco Tarkett believes that its financial position will enable the Corporation to meet its operating cash requirements, including research and development activities, its capital expenditures, and to assume its debts according to established terms.

Risks and Uncertainty

The future performance of Domco Tarkett is dependent on a number of factors, including market cyclicity, competition and the risks associated with currency, credit, environment, raw materials and energy costs.

Cyclicity. The flooring market is dependent on construction and renovation activities in both the commercial and residential sectors. The commercial sector lags the economic cycle by one to two years, while the residential market is more closely linked to its ebbs and flows.

Competition. Domco Tarkett products compete with other types of flooring available on the North American market. There has been increased penetration of the high-end residential market by flooring made of natural materials, which has affected the resilient flooring markets. Domco Tarkett develops high-quality and esthetically appealing resilient flooring that rivals natural materials.

Currency. 85% of sales are generated in the United States. Fluctuations between Canadian and U.S. currencies may have an impact on the Corporation's consolidated figures due to the flow of sales of finished goods between the two countries and the purchase of raw materials in the U.S. Nevertheless, the impact of these fluctuations is minimal on the overall profitability of the Corporation.

Credit. Concentration of credit risk with respect to trade receivables is limited due to a significant number of customers who are spread across different geographic areas primarily in Canada and the United States. At December 31, 2001, no customer accounted for more than 6.0% of the Corporation's overall sales.

Environment. The Corporation is subject to Canadian and American laws relating to employee health and safety, in addition to the control of various substances. In general, its operations do not involve activities likely to create significant environmental risks. However, the Corporation's operations do involve various materials that must be handled in accordance with applicable laws and it takes all necessary measures to comply with these laws.

Raw materials. Raw materials represent an important percentage of the cost of goods sold. In the resilient group, these materials represent more than 60% of the cost of goods sold. Because they are petroleum-derived, their prices are affected by fluctuations in petroleum prices. In the Hardwood group, the majority of the raw materials represent 50% to 55% of the cost of goods sold. These prices fluctuate with changes in supply and demand.

Management Discussion and Analysis

Outlook

The Corporation has two main objectives for fiscal 2002: to improve the profitability of its resilient business and to continue growing its successful hardwood business.

The reorganization of the resilient business into two divisions, Domco Tarkett Residential and Domco Tarkett Commercial, is expected to substantially contribute to the first objective. Establishing two separate divisions provides the Corporation with a number of benefits. These include:

- The ability to target its efforts more precisely on the distinct Retail and Contract customer channels
- The consolidation of responsibility and decision-making
- An improved time-to-market
- The facilitation of product innovation
- The renewal of the Corporate culture
- The elimination of redundant costs

The Corporation remains committed to its brands, as well as to all its distribution channels.

In response to consumer demand for realistic product finishes, the Corporation has also increased efforts to introduce new flooring products and finishes to the market. Its new TruTex™ Innovative Surfacing technology, for example, provides resilient sheet flooring with the most realistic representation of ceramic or stone. Renewing its emphasis on product innovation will help the Corporation to capture a greater share of this market.

In 2002, the Corporation is also focusing on raising the market profile of its successful line of hardwood products. Additionally, it is continuing to build its distribution network.

Finally, the initiatives introduced in 2001 to improve operational and manufacturing efficiency will be continued in 2002.

Domco Tarkett Plants

(as at December 31, 2001)

Products

ISO Certification

Resilient

Farnham, Quebec	Sheet vinyl	ISO 9001
Florence, Alabama	Luxury vinyl tiles and planks, vinyl and rubber wall base, solid vinyl tiles (SVT) and vinyl enhanced tiles (VET)	ISO 9002
Houston, Texas	Commercial vinyl composition tiles (VCT)	ISO 9002
Vails Gate, New York	Commercial vinyl composition tiles (VCT)	Expected in 2003

Hardwood

Johnson City, Tennessee	Longstrips and prefinished engineered and solid products	Expected in 2003
Johnson City, Tennessee	Unfinished parquets	Expected in 2003
Montpelier, Indiana	Veneer and plywood: intermediate product delivered to Johnson City	Expected in 2003
Tillar, Arkansas	Unfinished solid strips	Expected in 2003
Stuart, Virginia	Unfinished solid strips	Expected in 2003
Brookneal, Virginia	Unfinished solid strips	Expected in 2003



Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Domco Tarkett Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles.

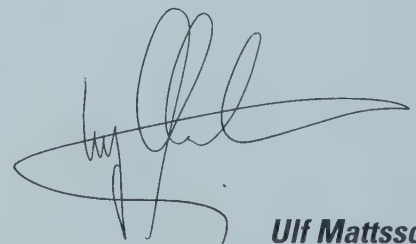
When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

The significant accounting policies used are described in note 1 to the consolidated financial statements. Certain amounts in the financial statements are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

Domco Tarkett Inc. maintains systems of internal accounting and administrative controls which are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and for reviewing and approving the financial statements. The Audit Committee is appointed by the Board, and a majority of its members are outside directors. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by KPMG LLP, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee.

A handwritten signature in black ink, appearing to read 'Ulf Mattsson', with a long horizontal flourish extending to the right.

Ulf Mattsson

President and Chief Executive Officer

March 14, 2002

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Domco Tarkett Inc. (the "Corporation") as at December 31, 2001 and 2000 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Montréal, Canada

February 8, 2002

Consolidated Balance Sheets

December 31, 2001 and 2000 (In thousands of dollars)

	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 56,484	\$ 53,907
Accounts receivable	55,330	66,751
Income taxes recoverable	2,990	5,669
Inventories (note 3)	133,592	139,395
Prepaid expenses	4,955	5,607
Future income taxes (note 10)	2,275	786
	255,626	272,115
Property, plant and equipment (note 4)	163,009	163,402
Goodwill, net of accumulated amortization	133,786	132,964
Other assets (note 5)	23,881	27,105
	\$ 576,302	\$ 595,586

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued liabilities	\$ 84,375	\$ 95,681
Current portion of long-term (note 6)	15,499	16,347
	99,874	112,028

Long-term debt (note 6)	126,778	155,442
Accrued employees' future benefit liabilities (note 9)	25,395	24,749
Future income taxes (note 10)	4,847	4,261

Shareholders' equity:

Capital stock and contributed surplus (note 7)	166,931	166,931
Retained earnings	121,275	113,352
Cumulative translation adjustments (note 8)	31,202	18,823
	319,408	299,106

Commitments and contingencies (notes 12 and 13)

\$ 576,302 \$ 595,586

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Director



Director

Consolidated Statements of Income

Years ended December 31, 2001 and 2000 (In thousands of dollars, except per share amounts)

	2001	2000
Revenues	\$ 649,621	\$ 657,297
Cost of goods sold	456,530	455,668
Gross margin	193,091	201,629
Expenses:		
Administrative, distribution and selling expenses	143,111	148,292
Depreciation	23,597	23,562
Amortization of goodwill	7,555	7,250
Interest on long-term debt	10,048	13,912
	184,311	193,016
Income before provision for income taxes	8,780	8,613
Provision for (recovery of) income taxes (note 10):		
Current	577	(3,048)
Future	280	3,823
	857	775
Net income	\$ 7,923	\$ 7,838
Earnings per share:		
Basic and diluted	\$ 0.31	\$ 0.31

See accompanying notes to consolidated financial statements.

Consolidated Statements of Retained Earnings

Years ended December 31, 2001 and 2000 (In thousands of dollars)

	2001	2000
Balance, beginning of year	\$ 113,352	\$ 109,325
Net income	7,923	7,838
	121,275	117,163
Common share dividends	—	(3,811)
Balance, end of year	\$ 121,275	\$ 113,352

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2001 and 2000 (In thousands of dollars)

	2001	2000
Cash flows from operating activities:		
Net income	\$ 7,923	\$ 7,838
Adjustments to determine net cash from operating activities:		
Depreciation	23,597	23,562
Amortization	8,696	8,090
Future income taxes	280	3,823
Other	(86)	(1,323)
	40,410	41,990
Net change in non-cash working capital items related to operations	17,488	23,051
	57,898	65,041
Cash flows used in financing activities:		
Repayment of long-term debt	(39,398)	(13,744)
Dividends	—	(3,811)
Other	(818)	(394)
	(40,216)	(17,949)
Cash flows used in investing activities:		
Purchase of property, plant and equipment	(16,598)	(17,064)
Proceeds from disposal of property, plant and equipment	568	1,763
Business acquisition, net of cash (note 2)	(1,331)	—
	(17,361)	(15,301)
Effect of changes in exchange rates on cash and cash equivalents	2,256	2,135
Net increase in cash and cash equivalents	2,577	33,926
Cash and cash equivalents, beginning of year	53,907	19,981
Cash and cash equivalents, end of year	\$ 56,484	\$ 53,907
Supplemental cash flow information:		
Interest paid	\$ 10,676	\$ 14,305
Recovery of income taxes, net	3,628	4,357

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000 (Tabular figures in thousands of dollars, except number of shares)

Domco Tarkett Inc. (the "Corporation"), incorporated under the Canada Business Corporations Act, is a manufacturer and distributor of floor covering products. These consolidated financial statements are expressed in Canadian dollars and include the accounts of the Corporation and those of its subsidiaries from the respective dates of acquisition.

1. Significant accounting policies

The consolidated financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies summarized below.

(a) Income taxes:

Effective January 1, 2000, the Corporation adopted the new Canadian Institute of Chartered Accountants ("CICA") standard relating to the accounting for income taxes. The CICA's new standard on accounting for income taxes adopts the asset and liability method for future income taxes.

Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities which are measured using enacted or substantively enacted tax rates represent amounts that are expected to be recovered or settled. Under the asset and liability method, the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Corporation has adopted the new income tax accounting standard retroactively, without restating the financial statements of any prior periods. The adoption of this new standard had no significant effect on the Corporation's financial statements.

(b) Cash and cash equivalents:

Cash and cash equivalents comprise cash and highly liquid investments which have a maturity of three months or less from the date of acquisition.

(c) Inventories:

Finished goods and work in process are valued at the lower of cost, determined on the first in, first out basis, and net realizable value. Raw materials are valued at the lower of cost, determined on the first in, first out basis, and replacement cost.

(d) Property, plant and equipment:

Property, plant and equipment are recorded at cost, net of applicable government grants and investment tax credits which could become partially repayable should the Corporation fail to maintain specified employment and investment levels. Depreciation is provided based on the estimated useful lives of the assets on the following basis:

Assets	Methods	Rate
Buildings and improvements	Declining balance and straight-line	3 % to 20 %
Equipment	Declining balance and straight-line	4 % to 33 %
Property under capital lease	Straight-line	3 %

No depreciation is provided for assets under construction or development.

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000 (Tabular figures in thousands of dollars, except number of shares)

1. Significant accounting policies (continued)

(e) Deferred charges:

Charges related to debt financing are deferred and amortized over the duration of the financing. Other deferred charges are amortized using the straight-line method over their estimated useful lives.

The net cost of sales aids is deferred and amortized using the straight-line method over a period not exceeding 24 months.

(f) Goodwill:

Goodwill, representing the cost of investments in subsidiaries in excess of the fair value of the net identifiable assets acquired, is amortized using the straight-line method over a period not exceeding 25 years. The value of goodwill is regularly evaluated by management by reviewing the net recoverable amounts of the related acquired businesses. The net recoverable amount represents the estimated future operating income of the acquired business on a non-discounted basis. Any permanent impairment in the value of goodwill is written off against earnings.

(g) Employee future benefits:

The Corporation and its subsidiaries maintain defined benefit and defined contribution pension plans for the benefit of substantially all employees. In addition, the Corporation provides other benefits, such as life and medical insurance, to certain retired employees.

The Corporation and its subsidiaries accrue their obligations under employee benefit plans as the employees render the services necessary to earn pension and other employee future benefits. The Corporation has adopted the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- For the purpose of calculating the expected return on plan assets, those assets are valued at market value.
- Past service costs resulting from plan amendments and net actuarial gains (losses) are amortized on a straight-line basis over the average remaining service period of the active employees.
- The average remaining service period of the active employees covered by the pension plan is between 12 and 17 years (2000 - 11 and 15 years). The average remaining service period of the active employees covered by the other retirement benefit plans is between 6 and 7 years (2000 - 8 and 11 years).

(h) Translation of foreign currencies:

The Corporation translates the accounts of its self-sustaining US subsidiaries using the current rate method. All balance sheet items are translated into Canadian dollars at rates of exchange prevailing at the year-end. Revenue and expense items are translated at average rates of exchange prevailing during the year. The resulting net gain or loss is shown as "Deferred translation adjustments" in shareholders' equity.

Accounts of the Corporation in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at year-end, and non-monetary items are translated at historical exchange rates. Foreign currency transactions are translated at the weighted average rate for the year. Exchange gains or losses are included in the consolidated statements of income, except those related to the translation of long-term debt which are deferred and amortized over its remaining life on a straight-line basis.

(i) Earnings per share:

In 2001, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to earnings per share. The new recommendations did not result in any changes to the way in which basic earnings per share is calculated. The new standards require that the treasury stock method be used for calculating diluted earnings per share. In calculating diluted earnings per share under this method, the weighted average number of common shares outstanding for the period is increased to include additional shares from the assumed exercise of options, if dilutive. The number of additional shares is calculated by assuming that outstanding options are exercised and that the proceeds from such exercises are used to repurchase common shares at the average share price for the period.

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000 (Tabular figures in thousands of dollars, except number of shares)

1. Significant accounting policies (continued)

(j) Long-term incentive plan:

The Corporation has a long-term incentive plan, which is described in note 7 (d). No compensation expense is recognized for this plan when shares or options are issued to plan participants.

(k) Derivative financial instruments:

Derivative financial instruments are used by the Company in the management of its interest rate exposures. Because derivative instruments are used for hedging purposes only, the cost of acquiring derivative financial instruments is amortized over the duration of the agreement. The income or expense resulting from the use of these instruments is included in net earnings for the period. Unrealized gains and losses are not recognized until the maturity of the underlying instrument.

2. Business acquisition

On March 23, 2001, the Corporation acquired certain assets of HFI Hardwood Flooring Inc., a Canadian hardwood flooring product distributor, for a cash consideration of \$1,331,000. This acquisition has been accounted for using the purchase method and resulted in goodwill of \$373,000.

The following reflects the allocation of the purchase price to the net assets acquired:

Inventories	\$	788
Property, plant and equipment		120
Other assets		50
Goodwill		373
	\$	1,331

3. Inventories

	2001	2000
Raw materials	\$ 30,945	\$ 28,917
Work in process	10,730	9,973
Finished goods	91,917	100,505
	\$ 133,592	\$ 139,395

4. Property, plant and equipment

			2001
	Cost	Accumulated depreciation	Net book value
Land	\$ 6,388	\$ —	\$ 6,388
Buildings and improvements	80,047	20,619	59,428
Equipment	199,691	112,653	87,038
Assets under construction or development	6,821	—	6,821
Property under capital lease	3,816	482	3,334
	\$ 296,763	\$ 133,754	\$ 163,009

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000 (Tabular figures in thousands of dollars, except number of shares)

4. Property, plant and equipment (continued)

			2000
	Cost	Accumulated depreciation	Net book value
Land	\$ 5,667	\$ —	\$ 5,667
Buildings and improvements	75,472	16,520	58,952
Equipment	178,989	94,087	84,902
Assets under construction or development	10,553	—	10,553
Property under capital lease	3,593	265	3,328
	\$ 274,274	\$ 110,872	\$ 163,402

The cost of property, plant and equipment has been presented net of \$5.72 million of government assistance (2000 - \$5.72 million).

5. Other assets

	2001	2000
Sales aids, net of accumulated amortization	\$ 16,221	\$ 17,030
Accrued employees' future benefit asset	1,443	3,614
Deferred financing charges, net of accumulated amortization	1,632	1,454
Deferred foreign exchange loss, net of accumulated amortization	462	827
Cash surrender value of life insurance	2,453	2,122
Other	1,670	2,058
	\$ 23,881	\$ 27,105

6. Long-term debt

	2001	2000
(a) Term loan under a US\$45 million credit facility bearing interest at the LIBOR rate plus 0.95% and payable in minimum annual installments of US\$2.8 million and a final payment of US\$25.8 million on March 31, 2003. The loan outstanding at December 31, 2001 was US\$28.6 million (US\$31.4 million in 2000). The effective interest rate as at December 31, 2001 was 2.92% (2000 - 7.52%).	\$ 45,553	\$ 47,084
(b) Term loan of US\$60 million bearing interest at variable rates based on LIBOR or US base rate plus a margin determined on a quarterly basis, payable in minimum annual installments of US\$6.6 million and a final payment of US\$40.2 million on July 31, 2004. The loan outstanding at December 31, 2001 was US\$53.4 million (2000 - US\$60.0 million) The effective interest rate as at December 31, 2001 was 3.61% (2000 - 7.81%).	85,055	89,970
Balance carried forward	130,608	137,054

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000 (Tabular figures in thousands of dollars, except number of shares)

6. Long-term debt (continued)

	2001	2000
Balance brought forward	\$ 130,608	\$ 137,054
(c) Revolving loan under a credit facility of US\$25 million bearing interest at variable rates based on LIBOR or US base rate plus a margin determined on a quarterly basis, maturing on July 31, 2004. As at December 31, 2001 this credit facility was unutilized.	—	14,995
(d) 6.5%, US\$1.3 million note payable maturing on August 15, 2003 (2000 - US\$3.9 million).	2,071	5,848
(e) 6.0%, US\$3.5 million note payable maturing on August 15, 2003 (2000 - US\$6.5 million).	5,575	9,747
(f) Obligations under capital leases of US\$1.9 million bearing interest at 9.75%, repayable in monthly installments of US\$33,000 and maturing in 2008.	3,082	3,204
(g) Interest-free loan from Société de développement industriel du Québec ("SDI") payable in five annual installments of \$188,160 commencing in September 2002.	941	941
	142,277	171,789
Less current portion	15,499	16,347
	\$ 126,778	\$ 155,442

The loans under (a), (b) and (c) are collateralized by securities on receivables, inventories and the main fixed assets of the Corporation and its subsidiaries.

The note under (d) is collateralized by land and buildings and improvements.

The terms of the credit facilities require that certain financial and non-financial covenants be met by the Corporation. These include the maintenance of certain financial tests and ratios and certain restrictions and limitations, including those on the amount of capital expenditures and amount of dividends paid by the Corporation. Management considers that respecting these covenants will not affect normal operations.

The Corporation is party to an interest rate cap agreement at 7.5% on US\$60 million for the period of July 31, 2001 to July 31, 2002. This agreement becomes effective if the floating rate is at 7.5% or greater to a maximum of 8.49%.

The Corporation is also party to an interest rate swap agreement for the period of July 27, 2001 to March 30, 2003, for an initial notional amount of US\$70 million gradually decreasing to US\$50 million. This transaction consists in a swap of the three-month USD LIBOR rate (received by the Corporation) against the constant maturity USD two-year rate (paid by the Corporation) associated with a knock-out cap on the two-year rate at 3.97%.

Payments required over the next five years and in aggregate for long-term debt, excluding obligations under capital leases, are as follows:

2002	\$ 15,160
2003	59,440
2004	64,219
2005	188
2006	188
	\$ 139,195

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000 (Tabular figures in thousands of dollars, except number of shares)

6. Long-term debt (continued)

The minimum payments required for obligations under capital leases are as follows:

2002	\$	631
2003		631
2004		631
2005		631
2006		631
Thereafter		1,104
Total minimum lease payments		4,259
Less amount representing interest at 9.75%		1,177
Present value of net minimum capital lease payments		3,082
Current portion of obligations under capital leases		339
		\$ 2,743

7. Capital stock and contributed surplus

(a) Authorized:

Unlimited number of common shares

(b) Issued and outstanding:

	2001	2000
25,407,535 common shares (2000 - 25,407,535)	\$ 165,445	\$ 165,445
Contributed surplus	1,486	1,486
	\$ 166,931	\$ 166,931

(c) Summary of common share transactions:

	Number of shares	Amount
Balance, December 31, 1999	25,400,535	\$ 165,405
Shares issued upon:		
Share purchase plan	7,000	40
Balance, December 31, 2000 and 2001	25,407,535	\$ 165,445

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000 (Tabular figures in thousands of dollars, except number of shares)

7. Capital stock and contributed surplus (continued)

(d) Long-term incentive plan:

The Corporation has a long-term incentive plan (the "Plan") for its senior executives. The Plan is composed of a share purchase plan and options to purchase common shares of the Corporation.

According to the terms of the share purchase plan, each eligible executive under the Plan will be entitled to purchase a number of common shares of the Corporation over a five-year period as a function of base salary, at a price equal to 95% of the weighted average price of the common shares on the Toronto Stock Exchange during the five consecutive days prior to the purchase date. The maximum number of common shares that may be issued pursuant to the share purchase plan will not exceed 200,000. During 2001, no shares were issued (2000 – 7,000 shares were issued for a cash consideration of \$40,110).

In addition, the Board may from time to time grant options to purchase common shares of the Corporation to eligible executives. The options may be exercised at an amount equal to or greater than the average closing price of the common shares on the Toronto Stock Exchange on the last business day before the date of the grant. The options vest gradually over a period of five years and can be exercised at all times up to seven years after they have been granted. The maximum number of common shares that are issuable under the Plan following the exercise of options granted will not exceed 800,000. During 2001, 361,745 options were issued, 311,745 options at an exercise price of \$4.15 per share and 50,000 at an exercise price of \$4.96 per share. In 2000, 213,650 options were issued at an exercise price of \$6 per share and in 1999, 73,750 options were issued at an exercise price of \$10 per share. In addition, 51,355 options issued in 2001, 32,675 options issued in 2000 and 7,500 options issued in 1999 were cancelled during the year. The total options outstanding as of December 31, 2001 was 557,615 (2000 - 287,400).

8. Cumulative translation adjustments

	2001	2000
Balance, beginning of year	\$ 18,823	\$ 10,524
Effect of exchange rate variation on translation of net assets of self-sustaining foreign operations	12,379	8,299
Balance, end of year	\$ 31,202	\$ 18,823

9. Employee future benefits

Information about the Corporation's defined benefit plans, in aggregate, is as follows:

	Pension benefit plans		Other benefit plans	
	2001	2000	2001	2000
Accrued benefit obligations:				
Balance, beginning of year	\$ 72,223	\$ 65,418	\$ 25,370	\$ 27,917
Plan contributions	775	–	197	–
Current service cost	2,575	3,172	62	548
Interest cost	5,489	5,021	1,963	2,066
Amendments	5,383	(2,388)	81	(4,658)
Actuarial losses (gains)	(4,412)	1,796	1,321	338
Benefits paid	(5,568)	(4,262)	(2,450)	(2,154)
Foreign exchange rate changes and other	4,362	3,466	1,612	1,313
Accrued benefit obligations, end of year	\$ 80,827	\$ 72,223	\$ 28,156	\$ 25,370

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000 (Tabular figures in thousands of dollars, except number of shares)

9. Employee future benefits (continued)

	Pension Benefit Plans		Other Benefit Plans	
	2001	2000	2001	2000
Plan assets:				
Fair value, beginning of year	\$ 71,309	\$ 70,363	\$ -	\$ -
Amendments	5,231	-	-	-
Employee contributions	610	-	197	-
Employer contributions	677	-	2,253	2,016
Expenses	(146)	-	-	-
Actual return on plan assets	(188)	1,949	-	-
Benefits paid	(5,568)	(4,262)	(2,450)	(2,154)
Foreign exchange rate changes and other	4,226	3,259	-	138
Fair value, end of year	\$ 76,151	\$ 71,309	\$ -	\$ -
Funded status - plan surplus (deficit)	\$ (4,676)	\$ (914)	\$ (28,156)	\$ (25,370)
Unamortized net actuarial losses (gains)	9,658	4,528	2,761	621
Unrecognized prior service cost	(3,783)	-	-	-
Unrecognized transition amount	244	-	-	-
Accrued employees' future benefit asset (liability)	\$ 1,443	\$ 3,614	\$ (25,395)	\$ (24,749)

Included in the above accrued benefit obligations and fair value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

	Pension Benefit Plans		Other Benefit Plans	
	2001	2000	2001	2000
Accrued benefit obligations	\$ 80,827	\$ 44,034	\$ 28,156	\$ 25,370
Fair value of plan assets	76,151	39,532	-	-
Funded status - plan deficit	\$ 4,676	\$ 4,502	\$ 28,156	\$ 25,370

The significant actuarial assumptions adopted in measuring the accrued benefit obligations are as follows as of December 31:

	Pension Benefit Plans		Other Benefit Plans	
	2001	2000	2001	2000
Discount rate	7.50 %	7.50 %	7.50 %	7.50 %
Expected long-term rate of return on plan assets	9.00 %	9.00 %	-	-
Rate of compensation increase	4.00 %	4.00 %	4.00 %	4.00 %

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000 (Tabular figures in thousands of dollars, except number of shares)

9. Employee future benefits (continued)

For measurement purposes, a 9.5% annual rate of increase in covered health care was assumed for 2001 (10.0% for 2000). The rate was assumed to decrease gradually to 5.5% for 2010 and remain at that level thereafter.

The Corporation's net benefit plan expense is as follows:

	Pension Benefit Plans		Other Benefit Plans	
	2001	2000	2001	2000
Current service cost	\$ 2,575	\$ 3,172	\$ 62	\$ 548
Interest cost	5,489	5,021	1,963	2,066
Expected return on plan assets	(6,785)	(6,293)	—	—
Curtailment loss (gain) (a)	—	985	—	(4,658)
Other	194	(258)	—	(697)
Net benefit plan expense (income)	\$ 1,473	\$ 2,627	\$ 2,025	\$ (2,741)

(a) For year 2000, the net curtailment gain of \$3,673 is included as a reduction of administrative, distribution and selling expenses in the consolidated statements of income.

10. Income taxes

The effective income tax rates differ from the Canadian federal-provincial statutory income tax rates due principally to the following:

	2001		2000	
Income taxes calculated at statutory rates	\$ 3,380	38.50 %	\$ 3,251	37.74 %
Increase (decrease) resulting from:				
Manufacturing and processing deductions	(312)	(3.56) %	(332)	(3.85) %
Lower tax rates for US subsidiaries	(4,402)	(50.14) %	(4,247)	(49.31) %
Permanent differences	420	4.78 %	1,582	18.37 %
Other	1,771	20.17 %	521	6.05 %
	\$ 857	9.75 %	\$ 775	9.00 %

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31, are as follows:

	Current	2001 Long-term
Provisions deductible for tax purposes in the future	\$ 11,049	\$ 2,476
Accrued employees' future benefits	—	9,569
Net operating losses carried forward	—	5,944
Difference in net book value and tax basis of capital assets	—	(23,172)
Use of LIFO for tax purposes	(7,129)	—
Other	(1,645)	336
Future tax asset (liability)	\$ 2,275	\$ (4,847)

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000 (Tabular figures in thousands of dollars, except number of shares)

10. Income taxes (continued)

		2000
	Current	Long-term
Provisions deductible for tax purposes in the future	\$ 7,858	\$ 4,089
Accrued employees' future benefits	—	9,029
Net operating losses carried forward	—	5,596
Difference in net book value and tax basis of capital assets	—	(22,975)
Use of LIFO for tax purposes	(6,227)	—
Other	(845)	—
Future tax asset (liability)	\$ 786	\$ (4,261)

11. Related party transactions

Related party transactions were conducted in the normal course of the operations and are measured at the exchange amount, which is the consideration established and agreed to by the related parties, except for the purchase of equipment which was measured at net book value.

The following table summarizes the Corporation's transactions for the year with related parties:

	2001	2000
Transactions for the year:		
Companies under common control:		
Purchases - inventory	\$ 5,842	\$ 3,371
Parent company:		
Purchases - inventory	9,460	8,625
Balance at year-end:		
Companies under common control:		
Accounts payable and accrued liabilities	2,258	5,374

12. Commitments

The Corporation is committed under operating leases for premises which require future minimum annual rental payments as follows:

2002	\$ 4,557
2003	3,442
2004	1,935
2005	1,563
2006	1,379
Thereafter	1,469
	\$ 14,345

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000 (Tabular figures in thousands of dollars, except number of shares)

13. Contingencies

- (a) During 1999, the Corporation acquired the shares of Tarkett North America Holding Inc. (Tarkett NA). Per the Share Purchase Agreement the Corporation is indemnified by Tarkett Sommer AG and Tarkett Sommer AB for, including but not limited to, environmental conditions, all losses in relation to litigation, specified matters and product liability, personal injury or property damage relating to asbestos containing materials, existing or threatened prior to the acquisition date.

The Share Purchase Agreement also includes a contingent consideration clause based on future results of Tarkett NA until the year ending December 31, 2003. Under this clause, the Corporation may have to pay an additional consideration of up to \$40 million. The amount of this contingent consideration, if any, is not determinable at this time and has not, therefore, been included in the allocation of the purchase price.

- (b) One of the Corporation's subsidiaries has been named co-defendant in asbestos-related lawsuits involving personal injuries. It is the opinion of management, based on the advice and information provided by its legal counsel, that final determination of these cases will not materially affect the Corporation's consolidated financial position or results of operations.

14. Financial instruments

- (a) Fair values:

The methods and assumptions used to estimate the fair value of each class of financial instrument for which it is practicable to estimate a value are as follows:

- (i) Short-term financial assets and liabilities:

The carrying amounts of these assets and liabilities, which comprise cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities are a reasonable estimate of the fair values because of the short maturity of those instruments.

- (ii) Long-term debt:

The carrying amount of the Corporation's floating rate long-term debt approximates its fair value because of its floating rate nature and because the debt, denominated in US dollars, is translated using the reporting date exchange rate.

The fair value of the loans having a fixed interest rate is based on estimated future cash flows discounted using the current market rate for debt of the same remaining maturities, as advised by the Corporation's bankers. The fair value of long-term debt as at December 31, 2001 is \$143,024,000 (2000 - \$170,964,000) compared to a carrying amount of \$142,277,000 (2000 - \$171,789,000).

- (iii) The fair value of the interest rate swap described in note 6 is calculated using market rates prevailing at the balance sheet date obtained from the Corporation's financial institution and represents the estimated amount that the Corporation would pay to settle the agreement at December 31, 2001. The fair value of the interest rate swap at December 31, 2001, would result in a loss of US\$1.36 million.

- (b) Credit risk:

The Corporation sells products to customers primarily in Canada and the United States. Concentration of credit risk with respect to trade receivables is limited due to a significant number of customers comprising the Corporation's customer base and their distribution across different geographic areas. As at December 31, 2001, no customer accounted for more than 5.5% (2000 - no customer accounted for more than 5.4%) of total trade receivables.

15. Segment disclosures

The Corporation operates in three reportable segments: two manufacturing segments (resilient floor covering products and hardwood floor covering products) with sales to Canadian and US distributors, and a Canadian distribution segment engaged in the distribution of floor covering products, mainly manufactured by the manufacturing segments. The accounting policies of the segments are the same as those described in note 1. Intersegment revenues are based on terms similar to those with third parties.

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000 (Tabular figures in thousands of dollars, except number of shares)

15. Segment disclosures (continued)

	Manufacturing - Resilient floor Covering products		Manufacturing - Hardwood floor covering products		Canadian distribution		Total	
	2001	2000	2001	2000	2001	2000	2001	2000
External revenues	\$ 387,590	\$ 420,666	\$ 183,576	\$ 159,116	\$ 78,455	\$ 77,515	\$ 649,621	\$ 657,297
Intersegment revenues	29,290	33,133	3,613	975	—	—	32,903	34,108
Revenues	416,880	453,799	187,189	160,091	78,455	77,515	682,524	691,405
Depreciation	16,004	15,839	7,475	7,643	118	80	23,597	23,562
Segment income (loss) from operations	7,335	12,810	21,329	18,025	(1,145)	1,524	27,519	32,359
Non-segment expenses:								
Interest on long-term debt							(10,048)	(13,912)
Amortization of goodwill							(7,555)	(7,250)
Other							(1,136)	(2,584)
Income before provision for income taxes							\$ 8,780	\$ 8,613
Identifiable assets	\$ 236,818	\$ 267,835	\$ 110,312	\$ 124,425	\$ 29,507	\$ 26,191	\$ 376,637	\$ 418,451
Elimination							(1,619)	(1,361)
Non-segment assets:								
Goodwill							133,786	132,964
Other							67,498	45,532
Total assets							\$ 576,302	\$ 595,586

Geographic information:

	Revenues		Property, plant and equipment and goodwill	
	2001	2000	2001	2000
Canada	\$ 95,540	\$ 95,853	\$ 44,090	\$ 44,708
United States	550,225	557,637	252,705	251,658
Other	3,856	3,807	—	—
	\$ 649,621	\$ 657,297	\$ 296,795	\$ 296,366

16. Comparative figures

Certain figures, previously reported on for 2000, have been reclassified to conform with the presentation adopted in the current year.

Board of Directors

Robert Arcand ¹

President
Financière Harricana Inc.

Marc Assa ³

Chairman of the Board
of Domco Tarkett Inc.

Chief Executive Officer
and Chairman of the
Management Board
Tarkett Sommer A.G.

André Bégin ²

Partner
Lette & Associés

John B. Claxton, Q.C. ²

Counsel
Gowling Lafleur Henderson

Michel Cagnet ¹

Chief Operating Officer
Tarkett Sommer A.G.

Robert O. Desautels

Director

Claude Lemire ^{1,3}

Business Consultant

Alphonse Lepage ^{2,3}

Director

Ulf Mattsson

President
and Chief Executive Officer

Fernando E. Stroppiana

President
Mondo S.p.A.

Robert W. Van Buren

Vice Chairman of the Board
Domco Tarkett Inc.

Senior Management

Ulf Mattsson

President
and Chief Executive Officer

Gilles de Beaumont

President
Commercial Division

Jan Lembregts

President
Residential Division

François Lemieux

President
Domcor

James K. Morando

President
Hardwood Division

Jacques Bénétreau

Treasurer
Senior Vice President Finance
and Chief Financial Officer

Danièle Béliveau

Vice President
General Counsel and Secretary

Head Offices and Administrative Offices

Domco Tarkett Inc.

Domco Tarkett Residential

1001 Yamaska Street East
Farnham, Québec
J2N 1J7
Telephone: (450) 293-3173
Fax: (450) 293-6644
Web site:
www.domcotarkett.com

Domcor

National Operations Centre
1001 Yamaska Street East
Farnham, Québec
J2N 1J7
Telephone: 1-877-436-6267
Fax: 1-877-296-7070

Domco Tarkett Commercial

P.O. Box 2467
Houston, TX 77252
U.S.A.
Telephone: 1-800-465-4030

Domco Tarkett Residential Sales and Marketing Offices

1139 Lehigh Avenue
Whitehall, PA 18052-5599
U.S.A.
Telephone: (610) 266-5500
Fax: (610) 266-5614

Hardwood Division/

Harris-Tarkett, Inc.

2225 Eddie Williams Road
Johnson City, TN 37601
U.S.A.
Telephone: (423) 928-3122
Fax: (423) 928-9445

¹ Member of the Audit Committee

² Member of the Corporate Governance Committee

³ Member of the Compensation Committee

Head Office

Domco Tarkett Inc.

1001 Yamaska Street East
Farnham, Québec
J2N 1J7

Telephone: (450) 293-3173

Fax: (450) 293-6644

Web site:

www.domcotarkett.com

**To get more information
about our products, you may
visit our other Web sites:**

www.domco.com

www.domcor.com

www.nafco.com

www.harris-tarkett.com

www.tarkettusa.com

Listings

Toronto Stock Exchange: DOC

Major Shareholder

Société d'Investissement
familiale S.A. through
3072410 Canada Inc.

Transfer agent and Registrar

National Bank Trust
Montréal, Québec
Telephone: (514) 871-7171
Toll free: 1-800-341-1419

Toronto, Ontario

Telephone: (416) 865-7562

Auditors

KPMG LLP
Montréal, Québec

Annual Information Form

Shareholders may obtain a
copy of the Annual Information
Form by writing to the Secretary
at the Head Office in Farnham.

**Si vous désirez recevoir ce
rapport en français, veuillez
adresser votre demande à
la Secrétaire de la société
au siège social à Farnham.**

DOMCO TARKETT INC.

Annual Meeting of Shareholders

**The Annual Meeting of Shareholders
will be held at 11:00 a.m. on May 29, 2002
at the Hôtel Omni Mont-Royal
Salon Pierre de Coubertin
1050 Sherbrooke Street West
Montréal, Québec**

DOMCO TARKETT INC.

